

**Top Secret**

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NATIONAL INTELLIGENCE DAILY CABLE

Saturday July 23, 1977

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**NATIONAL SECURITY INFORMATION**

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State Dept. review completed

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National Intelligence Daily Cable for Saturday, July 23, 1977.

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The NID Cable is for the purpose of informing senior US officials.

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Netherlands  
USSR

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#### IRAN-USSR: Brezhnev May Visit

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[REDACTED] //The Shah earlier this week disclosed to a US official that Soviet President Brezhnev may visit Iran. No specific dates have been set, but the visit will probably take place sometime before the Shah's trip to Washington in November.//

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[REDACTED] //The Shah said he will also make a swing in late August to Poland and Czechoslovakia. He expects that oil will be the most important topic of discussion in Warsaw and Prague, in view of the Soviet Union's reduced ability to supply Eastern Europe in the future.//

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[REDACTED] //The Shah's pointed disclosure of these coming events seems intended to remind the US that he has considerable room for maneuver in his relations with Moscow and its East European allies. The timing of Brezhnev's proposed visit before the Shah's meeting with President Carter also suggests the Shah may be responding to continuing Soviet criticism of Iran's heavy reliance on the US. Brezhnev's visit to Iran would be the first by a top Soviet official since Premier Kosygin dedicated a Soviet-built steel mill in 1973.//

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[REDACTED] //For its part, Moscow may see an opportunity to exploit what it sees as the Shah's growing irritation with criticism in the US Congress and the American press of Iran's performance on human rights and its large purchases of US advanced weaponry.//

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[REDACTED] //A substantial Iranian purchase of Soviet arms last November suggested the Shah might look increasingly to Moscow as a supplier of ground force equipment. The price tag was \$550 million, more than twice the size of any previous Iranian-Soviet arms transaction, making the Soviet Union Iran's second largest arms supplier after the US. [REDACTED]

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#### ITALY: Slow Economic Growth

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[REDACTED] //Prime Minister Andreotti's austerity program announced last winter has brought some improvement to Italy's economy.//

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25X1 [ ] //The most important improvement has been the slackening rate of inflation. This spring, consumer prices stood almost 20 percent above what they were a year earlier, but the annual increase could fall to 14 percent by December. Weakening domestic demand, meanwhile, has cut the trade deficit for the first five months of 1977 to only \$1 billion. Tightened credit controls and tourism have shored up the lira and raised Bank of Italy currency reserves to \$6 billion.//

25X1 [ ] //These improvements have been at the expense of economic growth. Economic indicators point down, industrial production is off sharply, and output is expected to stagnate the rest of the year. Unemployment is climbing steadily. Rising short-term foreign bank indebtedness could become a problem if confidence evaporates, and Rome probably will ask to reschedule heavy repayments due in 1978.//

25X1 [ ] //Cooperation between the Christian Democrats and the Communists, embodied in the recent "programmatic accord," will add new weapons to the fight against inflation. Though it dodges the thorny issue of wage reform, the accord does provide for specific measures to improve Italy's public finances. The economic portion of the accord is in line with International Monetary Fund requirements for additional credits, which should help the accord's passage in parliament. [ ]

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#### CHINA: Teng Reinstated

25X1 [ ] *The reinstatement of Teng Hsiao-ping this week as party vice chairman makes him the third-ranking Chinese leader behind Chairman Hua Kuo-feng and Vice Chairman Yeh Chien-ying. Teng was also restored to his previous positions in the government and army. He can now be expected to start making regular appearances and meeting with foreign visitors in his capacity as vice premier.*

25X1 [ ] A plenary session of the party central committee, held in Peking from July 16 to 21, restored Teng to all the positions he held in the party, government, and army before his ouster last year. The plenum also confirmed Hua in his post as party chairman and expelled the "gang of four" from the party.

25X1 [REDACTED]

25X1 [REDACTED] The plenum this week did announce plans to hold a party congress at an unspecified time this year, but decided to restore Teng now "after earnest discussion"--suggesting this may have been a controversial decision. Teng's supporters may have wanted no further delays in his return to work and pressed for a full restoration of his power at the plenum rather than awaiting a decision by the party congress.

25X1 [REDACTED] The plenum's action to confirm Hua as party chairman was a departure from normal practice. Usually the party congress formally elects the chairman, but this procedure may also have been moved up to the plenum in order to give Hua the added stature of officially being appointed head of the party to balance Teng's full return to duty.

25X1 [REDACTED] All active members of the party's ruling Politburo attended the plenum and were listed in their usual pecking order. The coming party congress will elect a new central committee which, in turn, will name a new Politburo. Until that time, Teng's return will probably be the only change in the leadership. [REDACTED]

#### ETHIOPIA: Situation Report

25X1 [REDACTED] *Ethiopian forces remain under heavy insurgent pressure in both Eritrea and the Ogaden, but there is little evidence that the military as a whole or significant elements of it are thinking seriously about turning on the ruling military council. Loss of either or both regions would not, in the judgment of the US embassy in Addis Ababa, signal the downfall of Chairman Mengistu, though it could trigger reactions that would weaken his control.*

25X1 [REDACTED] Mengistu and the council have been building assets outside the regular military forces. These include the popular militia--which represents Mengistu's effort to mobilize the people in defense of Ethiopia--and the newly created local administrative units.

25X1 [ ] It is unclear whether the militia can make a decisive impact on the battlefields. If it does, this would obviously strengthen Mengistu's position. The local administrative units have been assuming greatly increased responsibility in the peaceful provinces and have considerable responsibility for law enforcement in Addis Ababa.

25X1 [ ] Currently, there are no particular signs of new trouble in the capital. Political assassinations of low-level officials continue regularly and the number of night-time shootings has increased a notch, but the city shows a surface calm. The embassy sees no evidence of heightened security measures.

25X1 [ ] According to the embassy, there are no rumors of dissension in the military council. Mengistu himself reportedly appears confident.

25X1 [ ] Although the situation on the battlefronts is reaching a difficult stage for the regime, it may well survive territorial losses. Mengistu has skillfully played on Ethiopian patriotism; should a showdown with the army ever come, he may be able to draw on unexpected reservoirs of support among workers and peasants. Mengistu is also in the best position to cultivate foreign support, and he is likely to marshal as much military and political backing as he can from the USSR, Eastern Europe, and various African states. [ ]

#### MOROCCO: Moves Against Polisario

25X1 [ ] The Moroccans have been searching for more effective military tactics to use against the Polisario. They hope that new tactics and increased cooperation with Mauritania's armed forces will enable them to deprive the guerrillas of their freedom of operation.



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[REDACTED] Recent Polisario attacks on Nouakchott and Zouerate demonstrated the guerrillas' ability to strike at any time and any place. The Moroccans were able initially to drive the guerrillas from the larger towns they had occupied immediately after the Spanish withdrawal, but the guerrillas have continued to roam at will through the desert and maintain continual attacks against Moroccan forces. The Polisario has the advantage of familiarity with the terrain and the support of most of the population in the areas where it operates.

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[REDACTED] Moroccan forces have generally stayed in the larger towns and have alternated between undertaking large, generally fruitless, sweeps of the countryside and relying on forays by small mobile forces. Results have been mixed, and poor morale, difficult terrain, and inadequate logistics have been persistent problems.

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[redacted] In addition to its drive against the Polisario, Morocco is increasing its military cooperation with Mauritania. The two recently signed an accord providing for coordination of their military actions.

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[redacted] The Moroccans have changed tactics and the organization of their forces in Sahara before with little effect, but the recent changes, and the increased cooperation with Mauritania, may lead to increased effectiveness this time. The Moroccans realize, however, that given the nature of the war and terrain, they will never be able completely to seal off the border.

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#### LEBANON: Situation Report

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[redacted] A recent Palestinian initiative to defuse the situation in southern Lebanon has led to a series of meetings between representatives of the moderate Palestinians and the Lebanese and Syrian armies. Until the Christians and the rejectionist Palestinians--the chief contending parties in the south--take part in the talks, however, any agreement that emerges is unlikely to hold.

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[redacted] the Palestinian proposal [redacted] [redacted] apparently includes mutual Christian and Palestinian withdrawals to establish a demilitarized zone along the border; a joint Lebanese-Palestinian military committee to supervise the truce arrangements; and the deployment of Lebanese army units in the south. A UN presence may also be under consideration.

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[ ] The moderate Palestinians presumably hope to escape from the constant threat of Israeli intervention inherent in a continuation of the current situation. As long as a withdrawal from the border area did not confer a military advantage on either the Christians or the rejectionists, the moderates would lose nothing by such a move; they may reason that a UN or Lebanese army barrier to any Israeli move would give them greater freedom of activity a bit farther north.

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[ ] The moderates may also hope that the proposal, whether successful or not, will improve their image internationally, in Arab circles, and with the inhabitants of south Lebanon, whose lives have been severely disrupted by the continual shelling there.

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[ ] The meetings have generated considerable optimism on the part of the Lebanese and Syrian press, but even if the parties now represented in the talks do reach agreement--a real possibility--the accord will be doomed without Christian acquiescence. So far, the Christians have taken a hard line.

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[ ] General Khoury, the commander of the Lebanese army, fears the army will splinter if it is forced to cope with Christian-Palestinian fighting.

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#### SYRIA: Asad's Tough Stance

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[ ] *Syrian President Asad calls Israeli Prime Minister Begin's peace plan a "non-starter." Asad characterizes the plan as an attempt to legalize Israeli occupation and to "bury the rights of the Palestinian people," which he says are still the basic issue in the conflict.*

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[ ] Asad takes a very tough stance toward negotiations. He denies any interest in negotiating a separate Israeli pull-back on the Golan Heights and rejects as a basis of discussion

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any Israeli proposal for a semiautonomous West Bank, which would have security links with Israel and economic ties with Jordan.

25X1 [ ] The Syrian President reiterates his opposition to establishment of diplomatic relations or any other Arab steps to normalize relations with Israel as a quid pro quo for Israeli territorial withdrawals.

25X1 [ ] Asad asserts that President Carter needs to hold further discussions to attempt to gain a "clearer vision of the problem." If the US is sincere in its desire to promote peace, Asad says it is enough if it adopts a "neutral stance." Asad presumably means that the US should suspend military and economic assistance to Israel.

25X1 [ ] Turning to Lebanon, Asad estimates that Syrian forces might have to stay there at least another year. [ ]

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#### USSR-CSCE: Changing Tactics

25X1 [ ] //The second-ranking member of the Soviet delegation at the Belgrade Conference on Security and Cooperation in Europe has backed off from Moscow's threat to block the fall meeting if no firm closing date is established. The threat, made by delegation chief Yuli Vorontsov in a table-pounding, but informal, discussion Tuesday, was contradicted by his deputy, S. A. Kondrashev, in private remarks to members of the US delegation later that day. Kondrashev, who is a staff officer of the KGB, also made an appeal for a Soviet-US "understanding" on the tone and level of mutual criticism at the senior-level review conference this fall.//

25X1 [ ] //By seeking such an advance understanding, the Soviets are using a tactic similar to one they employed earlier this year in bilateral appeals to West European CSCE principals for a "constructive" conference. The Soviet delegation showed flexibility in its recent acceptance of most of the guidelines drawn up by the neutral countries for the fall session. In addition to softening its insistence on a firm closing date for the fall meeting, Moscow has moved closer to the neutrals' proposals on the number and duration of sessions of the working bodies.//

25X1 [redacted] //In private remarks to US officials, both Vorontsov and Kondrashev have commented on Soviet tactics for the fall conference. Vorontsov said on Thursday that Moscow would go to the fall review conference with "relatively few" new proposals. He specified that the Soviet proposal on non-first use of nuclear weapons would not be one of them.//

25X1 [redacted] //Kondrashev noted on Tuesday that the Soviet delegation to the opening session in the fall will be headed either by First Deputy Foreign Minister Kuznetsov or Deputy Foreign Minister Kovalev. In either event, Vorontsov will resume his current position as head of the delegation after the opening meeting.// [redacted]

WEST BERLIN: Soviet Harassment

25X1 [redacted] *The US mission in West Berlin reports that the Soviets recently have increased their military vehicle traffic in West Berlin to about 100 vehicles per week, about two and a half times the number of tours by the three Western Allies in East Berlin.*

25X1 [redacted] The Soviets and East Germans have stated for several months that the Allied patrols in East Berlin are an annoyance and an outdated operation that should be discontinued. They have told the Allies that the USSR might increase its patrols in West Berlin if the Allies continue "provocative" tours in East Berlin.

25X1 [redacted] The USSR may hope that the Allies will seek an agreement reducing both Western and Soviet trips. The increase in Soviet trips to West Berlin is a sign that the USSR does not intend at this time to countenance any harassment of Allied visits to East Berlin. The Soviets may use the increase to seek to persuade their East German allies that they are still working to eliminate or cut back Allied vehicle movements in East Berlin.

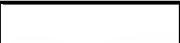
25X1 [redacted] In fact, however, the Soviet increase strengthens the Allied position by providing evidence of the four-power status of greater Berlin, something the Soviets have declared obsolete. [redacted]

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PORTUGAL: Agrarian Reform

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 *Portugal's largest opposition party, the centrist Social Democrats, sided with the ruling Socialists yesterday*

*to secure passage of a controversial agrarian reform bill. Speculation in Lisbon earlier was that the opposition parties might try to use the opportunity to bring the government down. Voting on remaining issues will probably go quickly as the legislative assembly prepares to adjourn until October. The Socialists at that time may have to take into account the opposition parties' desire to participate in the government.*

25X1 [ ] The Socialists were forced to make concessions in other areas in order to obtain the Social Democrats' support on the agrarian bill. The two parties announced that they will hold regular consultations on policy matters. The Social Democrats want a voice in overall political and economic policy, more influence in the media, and a greater role in local government.

25X1 [ ] Remaining measures before the assembly, including compensation for nationalized industries and authorization of foreign loans, are likely to be approved. More contentious issues, like the Socialists' mid-term economic program, will probably be delayed until the October reopening.

25X1 [ ] The government could face serious problems if it does not keep its commitment to consult with the Social Democrats. Social Democratic Party leader Sa Carneiro is maneuvering to gain a role in the government--some say he has his eye on the prime ministry. He may attempt to turn his party against the Socialists, although moderates in his party will probably fight any effort to bring down the government.

25X1 [ ] The leader of the conservative Center Democrats, Freitas do Amaral, has hardened his party's position against the Socialists, in part because party members are pressing him to move to the right. He also believes that this is the time to show the Socialists how vulnerable they are in a minority government and to convince them to agree to a coalition with the Social Democrats and the Center Democrats.

25X1 [ ] The Socialists are not likely to be moved by Freitas do Amaral's proposal that they should turn to the right and forsake their image as the party that can deal with both sides of the spectrum. The Socialists' wide-ranging support has won them pluralities in three elections, and they are unlikely to change their stance. They are also unlikely to renounce their campaign pledge to form no alliances.

25X1 [ ] The Socialists, however, realize that they must be more flexible in dealing with opposition parties if they want to remain in power. They may try to ease the pressure for a coalition in the fall by including some independents in the government.

25X1 [ ] The ruling party may run into problems from the Communist Party. The Communists are angry that the Socialists have undercut their influence in agrarian affairs and may be planning to retaliate. Communist leader Cunhal has promised to make it difficult for the government to implement the agrarian reform measures, which include handing back land illegally taken by Communist-led mobs in 1975. The Communists can stir up trouble, but security forces should be able to handle any disturbances.

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#### BRIEFS

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#### Netherlands:

25X1 [ ] Queen Juliana has asked prominent Dutch politician Willem Albeda to try to work out differences between the centrist Christian Democrats and the socialist Labor Party over a controversial profit-sharing bill so that negotiations to form a government can be resumed.



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[ ] This is the third phase of the effort to form a government after the election on May 25. The first phase, an attempt by caretaker Prime Minister and Labor Party leader den Uyl, lasted 44 days and ended in deadlock over the profit-sharing issue.

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[ ] The second phase was short-lived. Justice Minister van Agt, leader of the Christian Democrats, refused to try to form a government, saying that den Uyl gave up too easily.

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[ ] Albeda is a leader of the Christian Democrats, a member of the upper house, and regarded as one of the "wise men" in Dutch politics. [ ]

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USSR:

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[ ] Soviet President and party leader Brezhnev, now vacationing in the Crimea, will evidently hold a series of bilateral meetings again this year with the "vacationing" leaders of Moscow's close allies.

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[ ] Brezhnev met with his East German counterpart, Erich Honecker, on Tuesday and with Czechoslovak President and party boss Husak yesterday. *Pravda* has also noted that Mongolian chief of state and party leader Tsedenbal has arrived in the USSR "on vacation" at the invitation of the Soviet party Central Committee.

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[ ] The communique-like announcements of Brezhnev's meetings with Honecker and Husak were routine in tone and unexceptional in content; they made no mention of major international issues save a standard reiteration of the Soviet - East European position on the Conference on Security and Cooperation in Europe.

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[ ] From 1971 through 1973, the summer gatherings in the Crimea took place on a multilateral basis, but for the past three years each leader has met individually with Brezhnev at his Crimean retreat. [ ]

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